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Report to Congressional Requesters

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# AMTRAK

# Auto Train Recovers Costs Required by Law

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Resources, Community, and
Economic Development Division

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October 7, 1986

The Honorable James J. Florio
Chairman, Subcommittee on Commerce,
Transportation and Tourism
Committee on Energy and Commerce
House of Representatives

The Honorable Robert Torricelli
House of Representatives

In your letter of January 13, 1986, you asked that we determine whether Amtrak's Auto Train is recovering its costs and whether Amtrak's federal appropriations are used to subsidize Auto Train's operations. On June 20, 1986, we briefed your offices on the results of our review and, as requested, have summarized the information we presented in this report.

Individual Amtrak trains are not required to recover their total costs. However, the Rail Passenger Service Act of 1970, as amended, established a ceiling on the loss-per-passenger-mile (one passenger traveling 1 mile) that a train can sustain before Amtrak must discontinue or adjust the service. Amtrak adjusts the loss-per-passenger-mile figure annually to reflect inflation. In fiscal year 1985, for long-distance trains, such as Auto Train, the loss cannot exceed 10.8 cents per passenger mile. The loss, however, is calculated using short-term avoidable costs rather than total costs. Short-term avoidable costs are day-to-day operating costs, such as train and engine crew expenses, that, in general, would cease as soon as a train was discontinued. In contrast, some costs, such as nonroutine station maintenance, would not be avoided if one train was discontinued because a station has to be maintained as long as even one train uses it. Because Auto Train's fiscal year 1985 revenues exceeded its short-term avoidable costs, it met the performance criterion.

In fiscal year 1985, none of Amtrak's trains or the system as a whole recovered their total operating costs. The system recovered 58 percent of its total costs and had a net loss of $740 million. In the same year, Auto Train recovered 79 percent of its total costs and had a net loss of $6.6 million. Because Auto Train, like all other Amtrak trains, is not recovering its total costs, it is benefiting from the federal appropriation to cover Amtrak's operating deficit and provide capital grants. In fiscal year 1985, Auto Train's first full year of operations, the Amtrak system subsidy was $684 million.

To perform this review, we interviewed Amtrak officials regarding Auto Train operations and analyzed financial performance data for Auto Train and Amtrak's other two Florida trains. As agreed with your offices, we neither tested nor validated Amtrak's data.

## Background

The Congress enacted the Rail Passenger Service Act (45 U.S.C. 501) in 1970 to revive the failing intercity passenger train industry and retain for the nation a network of high-quality rail passenger service. The act called for the Secretary of Transportation to designate a national network of passenger service and create a National Railroad Passenger Corporation (Amtrak) to take over the network's management and development. Amtrak was incorporated on March 30, 1971, and began operations on May 1, 1971.

The law established goals for the corporation, one of which is to use its resources to undertake initiatives that will maximize its revenues and minimize federal subsidies. One of the authorized initiatives is an auto-ferry service.

Although Amtrak was given the authority to operate an auto-ferry service in 1973, it did not begin operating the service until October 29, 1983, when the first Amtrak Auto Train departed Lorton, Virginia, for the 862-mile trip to Sanford, Florida (near Orlando). Initial service was three times a week; daily service began on October 28, 1984. Auto Train is actually two trains. While one is heading south, the other is moving north on their 17-hour trip. Each Auto Train carries 40 to 45 railroad cars, 20 to 24 of which are auto-carriers. The train can transport approximately 264 passenger cars and 496 people. Amtrak operates two other passenger-only trains to Florida. These trains, the Silver Meteor and the Silver Star, originate in Boston, Massachusetts, and terminate in either Tampa or Miami, Florida.

According to Amtrak officials, the current Auto Train service was modeled on the general design of a previous auto-ferry service, also called Auto-Train, which was operated from 1971 through April 1981 by a private company that went bankrupt. During Amtrak's reauthorization hearings in 1983, the President of Amtrak said the corporation was optimistic about its ability to earn a profit from Auto Train, even though the private company had failed, because Amtrak could provide the service at minimal cost in view of the corporation's operating ability and experience, established marketing and ticketing

systems, and existing contracts with the railroads that own the tracks Auto Train would use.

Amtrak's initial investment in Auto Train was $8.1 million. Over 50 percent ($4.4 million) of these funds were used to purchase and rehabilitate the previous Auto-Train's auto-carrier cars. Additional costs included, for example, purchasing and rehabilitating the Sanford, Florida, terminal; leasing and rehabilitating the Lorton, Virginia, terminal; and purchasing the previous Auto-Train's name and passenger list.

## Auto Train Recovers Most, but Not All, of Its Costs

Individual Amtrak trains are not required to recover their total costs. Instead, the Rail Passenger Service Act, as amended, established criteria for the types and extent of losses a train can sustain and still keep operating. In fiscal year 1985, Auto Train's total costs of $31.7 million exceeded its revenues of $25.1 million by $6.6 million. Thus, Auto Train recovered 79 percent of its total costs. The additional 21 percent was covered by federal funds because the Amtrak system does not recover its total costs either and receives an annual subsidy. In fiscal year 1985, Auto Train's first full year of daily service, Amtrak's appropriation to cover its operating deficit and capital costs was $684 million.

However, in terms of the act's cost criterion for trains like Auto Train, Auto Train's revenues exceeded the costs it must recover. Thus, Auto Train met this criterion.

## Types of Costs Charged to Trains

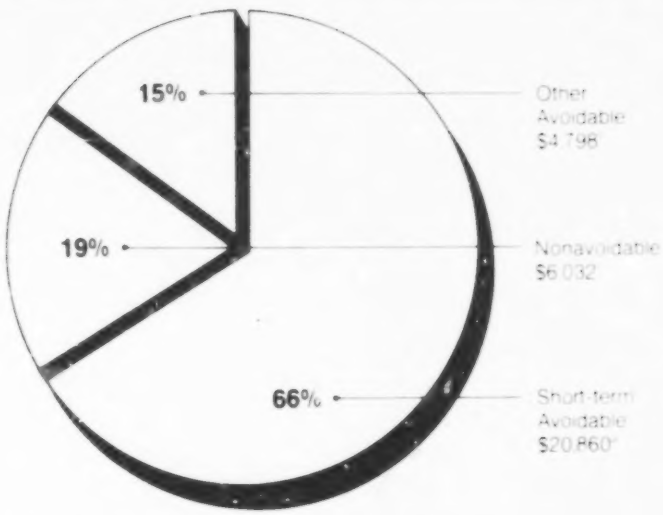
Some of Amtrak's costs, such as train and engine crew expenses, would be eliminated as soon as a route is discontinued. Amtrak defines these costs as short-term avoidable costs. These costs are called avoidable because they would not be incurred if Amtrak did not operate the service. Other costs, such as heavy equipment repair, would also be avoided if Amtrak did not operate the service. These costs, however, would not be avoided as soon as a route is discontinued and are not used to calculate the loss per passenger mile.

Nonavoidable costs associated with operating a train include costs such as depreciation of heavy equipment and buildings and taxes. All of these costs represent the total costs of operating the Amtrak system.

Figure 1 shows Auto Train's total costs for fiscal year 1985. Sixty-six percent of these costs were short-term avoidable costs. In contrast, in

the same year, short-term avoidable costs for Amtrak's other two Florida trains were 53 and 55 percent, respectively.

**Figure 1: Auto Train's Total Costs for Fiscal Year 1985** (Dollars in Thousands)




[a] Examples: Train and Engine Crew and Fuel Expenses
[b] Example: Nonroutine Equipment Repair
[c] Example: Depreciation and Taxes

Source: Amtrak

## Most of Auto Train's Costs Are Direct Charges

According to Amtrak officials, Amtrak charges its costs to specific trains when a reasonable allocating formula can be established. In fiscal year 1985, 91 percent of the Amtrak system's total costs—all operating costs and some corporate costs—were allocated to trains. The remaining 9 percent not charged to trains were general and administratives costs, such as salaries and benefits, incurred by Amtrak corporate departments.

For all trains except Auto Train, the 91 percent of system costs charged to trains are common or indirect costs that are allocated to trains by formula. Some common costs are systemwide; others are unique to a geographic area. For example, all trains share in the cost of Amtrak advertising, but only trains using the Northeast Corridor stations share expenses for services provided at the stations.

In the case of Auto Train, however, more of its costs are direct charges because Auto Train is a unique operation and costs can be identified easily. For example, Auto Train is the only train using the Lorton and Sanford terminals. Therefore, all costs associated with operating these stations are charged to Auto Train.

Appendix I lists Auto Train's avoidable costs and shows whether they are charged directly or by formula. For other Amtrak trains, all of these costs are common costs and are charged to trains based on formulas. For example, station service costs, such as ticketing, are based on the number of passengers getting on and off at the station and are charged to all trains using that station.

Some of Auto Train's other costs, such as depreciation, are a combination of direct and formula charges. For example, in fiscal year 1985 Amtrak's original $8.1 million capital investment in Auto Train generated depreciation of $688,000. This amount was charged directly to Auto Train. However, an additional $3.8 million in depreciation was computed by formula and charged to Auto Train as its share of overall Amtrak system depreciation.

## Auto Train Recovered All Costs Required by the Act

Short-term avoidable costs are the basis for route and service cost performance criteria established by the Rail Passenger Service Act, as amended. In fiscal year 1985, if the short-term avoidable loss per passenger mile for a long-haul train, such as Auto Train, exceeded 10.8 cents, Amtrak would have had to discontinue or modify the service. Auto Train's revenues exceeded its short-term avoidable costs by 3.8 cents per passenger mile. Thus, Auto Train met the criterion.

Revenues were less than short-term avoidable costs for the other two Florida trains, by 4.3 cents and 2.6 cents per passenger mile, respectively. However, because these losses were less than the act's criterion of 10.8 cents, the two other Florida trains also met the act's criterion.

## Auto Train Benefits From System Subsidy

Because the Amtrak system does not recover its total costs, the system receives an annual appropriation from the Congress. The fiscal year 1984 appropriation was $716.4 million; in fiscal years 1985 and 1986 it was $684.0 million and $616.7 million, respectively. These funds cover the Amtrak system's operating deficit and provide investment capital. Because the Amtrak system does not recover its total costs and receives an annual subsidy and Auto Train is part of this subsidized system and

does not recover its total costs either, Auto Train benefits from the subsidy.

Table 1 compares the fiscal year 1985 revenues of Auto Train and the other two Florida trains with both their short-term avoidable costs and their total costs. Auto Train recovered more than its short-term avoidable costs, but the other two Florida trains did not. In addition, Auto Train recovered 79 percent of its total costs, while the other two Florida trains recovered 39 and 41 percent, respectively.

**Table 1: Revenues and Costs for Florida Trains, Fiscal Year 1985**

Dollars in thousands

| | Auto Train | Silver Star | Silver Meteor |
|---|---|---|---|
| Revenue | $25,131 | $24,279 | $27,329 |
| Cost | | | |
| Total | 31,690 | 62,791 | 66,137 |
| Short-term avoidable[a] | 20,860 | 34,598 | 35,289 |
| Excess (shortage) of revenues | | | |
| Based on total cost | (6,559) | (38,512) | (38,808) |
| Based on short-term avoidable costs | 4,271 | (10,319) | (7,960) |
| Ratio of revenues to costs | | | |
| Based on total costs | 79% | 39% | 41% |
| Based on short-term avoidable costs | 120% | 70% | 77% |

[a]Performance criterion for trains is based on these costs only

Source: Amtrak

For the first 7 months of fiscal year 1986 (October 1985 through April 1986), Auto Train recovered 94 percent of its total costs and its revenues exceeded its short-term avoidable costs by $7.5 million, compared to 72 percent and $848,000 during the same time period in fiscal year 1985.

We discussed the report's contents with Amtrak officials, who concurred with the facts. However, as agreed with your offices, we did not obtain official agency comments on a draft of this report. Unless you publicly announce its contents earlier, we plan no further distribution of

this report until 7 days from the date of this letter. At that time, we will provide copies to Amtrak and to others upon request.

Neal P. Curtin for

J. Dexter Peach
Assistant Comptroller General

# Method of Charging Auto Train's Avoidable Costs (Fiscal Year 1985)

Dollars in thousands

| Short-term avoidable costs and selected examples | Method of charging | Amount |
|---|---|---|
| Train and engine crews | Direct | $2,031 |
| Fuel and power | Direct | 2,218 |
| Transportation<br>—train dispatching | Direct | 2,057 |
| Routine engine maintenance | Direct | 970 |
| Routine car maintenance | Direct | 4,691 |
| Routine track/station maintenance | Direct | 335 |
| On-board service<br>—sleeping and dining car attendants | Direct | 5,426 |
| Station service<br>—ticketing | Direct | 1,033 |
| Marketing/reservations | | 1,744 |
| —advertising | Formula | |
| —sales commission paid to travel agents | Direct | |
| General support | | 157 |
| —revenue accounting | Formula | |
| —station security | Direct | |
| Insurance (actual claims paid) | Direct | 198 |
| **Total** | | **20,860** |
| Other avoidable costs | Formula | 4,798 |
| **Total** | | **$25,658** |

Source: Amtrak

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